Pharmacy Plus
Section 1115 Waiver Research and Demonstration Projects
Technical Guidance and Fact Sheet

General

Section 1115 demonstration authority may be used to extend pharmacy coverage to certain low-income elderly and disabled individuals who are not otherwise eligible for Medicaid. The demonstrations may offer assistance by providing pharmaceutical products, assisting individuals who have private pharmacy coverage with high premiums and cost sharing, or providing wraparound pharmaceutical coverage to bring private sources of pharmacy coverage up to the level of desired demonstration benefit coverage. The demonstrations may include incentives for individuals with private pharmacy coverage to not drop their existing coverage in favor of demonstration pharmacy coverage. States are encouraged to adopt competitive private sector approaches to provide more cost effective, modern prescription drug benefits in Medicaid. The demonstrations will test how provision of a pharmacy benefit to a non-Medicaid covered population will affect Medicaid costs, utilization, and future eligibility trends.

Eligibility

Under an 1115 pharmacy demonstration, States could provide prescription and over-the-counter drug coverage to a range of individuals including Medicare beneficiaries and/or people with disabilities who are not eligible for full Medicaid benefits and with incomes below 200 percent of the Federal Poverty Level (FPL). Drug benefit coverage may be provided to those who are Medicare beneficiaries, whether or not they are eligible for Medicare Savings programs under Medicaid (which pay Medicare premiums, and in some cases, Medicare cost sharing expenses, e.g. QMBs and SLMBs) and/or people with a disability, who are not eligible for full Medicaid benefits. States may choose whether to perform assets tests and income adjustments, and may also choose to enact an enrollment ceiling on the number of individuals who participate in the demonstration.

Pharmacy Benefit Package

States may elect to provide a prescription and over-the-counter drug benefit that is similar to, or different from, the benefits provided in the Medicaid State Plan. States may include a richer benefit package or one that is more limited in scope. In addition, States may choose to deliver services via fee-for-service or capitation. It should be noted, however, that the purpose of the demonstrations is to provide a subsidized pharmacy benefit that is intended to assist individuals in maintaining their healthy status and avoid spending down to Medicaid income and asset eligibility levels. The coverage must be successful in diverting Medicaid eligibility in order for the demonstration to be budget neutral.

Budget Neutrality

Pharmacy demonstrations, like all Section 1115 demonstrations, must be budget neutral to the Federal government. That is, the Federal costs of services provided during the demonstration will be no more than 100 percent of the cost to provide Medicaid services without the demonstration. An expansion demonstration could reduce the costs the State incurs for State plan eligible groups through lesser service utilization, reduced period of Medicaid eligibility, and

more effective pharmacy benefit management. The expenditures that are saved are then available to pay for the new demonstration population. The terms and conditions of an approved demonstration will specify the financial ceiling on Federal financial payments for services included in the budget neutrality agreement. The aggregate budget ceiling requires the State and Federal governments to agree to trends in the cost and eligibility prior to award. A budget neutrality aggregate ceiling methodology was used in Illinois' recently approved program. This method places a cap on Federal Financial Participation (FFP) for not only the demonstration population expenditures, but also for the Medicaid "Aged" category expenditures. Illinois believes the costs of their pharmacy expansion will be offset by subsequent reduced expenditures in their Medicaid aged population.

Private Insurance Coordination
If an individual has private insurance coverage that excludes certain needed drugs or only covers up to a certain number of prescriptions, pharmacy demonstration coverage could wrap around the private coverage to fill the gaps. Demonstration funds could also be used to assist individuals with premiums or copayments for private insurance coverage. This would provide encouragement to maintain or obtain private coverage instead of full services in the demonstration. All Medicare pharmacy products that are available could be coordinated with pharmacy demonstration benefits to create a rich package for eligible low-income individuals.

Pharmacy Benefit Management
States interested in pharmacy demonstrations are encouraged to explore use of pharmacy benefit managers (PBM). Through a demonstration, a state could utilize a PBM for the demonstration population only, or include both the demonstration and Title XIX populations.

Cost Containment Methods
Premiums, cost sharing (deductibles, copayments and coinsurance), and benefit limitations are all available tools for providing incentives and cost containment. States may charge higher copayments for expansion populations than may be permitted for its current Medicaid eligibles. Demonstrations may include a 3-tier copayment schedule based on generics/brand name drugs, a percent of FPL, utilization patterns, or a combination of the above approaches.

The flexibility to design premiums and cost sharing is, however, accompanied with accountability. Reducing the cost of a demonstration, however, is only one of the ingredients for achieving budget neutrality. Another critical step is getting the pharmacy services to the subset of the expansion population that would be most at risk for an exacerbation of an illness. High copayments and benefit limits may constrain the availability of services for individuals with chronic conditions, who may have the greatest need and may be most at risk for spending down and becoming Medicaid eligible. A balance, therefore, is needed when designing and setting the dollar amount of cost containment tools. It may be productive to consider sliding scale schedules that vary with an individual's income; including more catastrophic coverage and less first dollar coverage; and perhaps exemptions or additional assistance for individuals with specific chronic conditions such as cardiovascular disease, pulmonary disease and diabetes. Further consideration of medical practice patterns, demographics, and individuals qualified to spend down to Medicaid eligibility in the State will help to analyze the cost-effectiveness of cost containment tools.

It is expected that States will demonstrate how their demonstration program will expand pharmacy services, produce offsetting reductions in Medicaid expenditures for acute and long term care, and incorporate private-sector tools for encouraging cost containment through cost-effective utilization of pharmaceuticals. The requirement of budget neutrality can only be met in this way.

Primary Care Coverage and Related Medical Management

States are expected to include a feature in pharmacy expansions to ensure that individuals in the demonstration have access to primary care services. Specifically, States must guarantee that individuals receive assistance with the medical management of pharmacy products prescribed. States can fulfill this requirement by: providing a primary care benefit package;, connecting clients to FQHCs/RHCs or Ryan White primary care providers for primary care services, or, for individuals with primary care coverage (e.g., Medicare), coordination via medical management of the pharmaceutical benefit.

Funding for State Pharmacy Programs

When a Pharmacy Plus demonstration entirely or partially subsumes a State-only funded pharmacy program, the State must provide documentation as to how Medicaid expenditures will be reduced under the demonstration (compared to the "without demonstration" levels) and how budget neutrality will be achieved. For example, the expenditures that are saved from a reduction in the number of eligibles who would have been in the Medicaid program if no demonstration existed, are then available to pay for the extension of pharmacy coverage for the new demonstration population. If a demonstration service package or the population covered does not go enough beyond that which already exists in the State, it may be difficult to attain the impact that would produce savings to pay for the new population.